CHAPTER 3F

MOTOR VEHICLE FEES

HIGHLIGHTS

- Tax Base — For license fees, the "market value" of the vehicle. For weight fees, the unladen, or gross weight of the vehicle, or combined gross vehicle weight.

- Tax Rate — License fees are 0.65% of the "market value" of the vehicle in calendar year 2004. The registration fee was changed to a flat $41 per year, effective January 1, 2004.

- Revenue

	License Fees	Registration Fees	Weight Fees
2007-08 (actual)	$2.2 billion	$1.6 billion	$1.00 billion
2008-09 (estimate)	$2.1 billion	$2.0 billion	$1.00 billion
2009-10 (estimate)	$2.2 billion	$2.5 billion	$1.03 billion

- Administration — Department of Motor Vehicles (DMV)

- Collection — Franchise Tax Board (FTB) (delinquencies only)

1. TAX OVERVIEW

The **motor vehicle license fee** (VLF), also known as the automobile in-lieu tax, is levied for the privilege of operating a vehicle on the public highways of California. The tax is imposed in-lieu of a local personal property tax on automobiles. The fee is paid annually.

The **motor vehicle registration fee** is levied annually on all motor vehicles, trailer coaches, and other vehicles that use public highways.

Weight fees are levied annually for the operation of certain commercial motor vehicles.

Other vehicle-related fees include driver's license fees, transfer of title fees, motor-carrier tax and others that are not discussed in this book.

2. TAX RATES

Existing law imposes a VLF for the privilege of operating a vehicle on California's public highways. Although called a fee, the VLF is a tax imposed in lieu of a local personal property tax on automobiles. The VLF is imposed at a rate of 2% on a vehicle's market value, which equals the manufacturer's suggested base price plus options, adjusted by a depreciation schedule specified in state law. Pursuant to the State Constitution, VLF revenue is allocated to local governments. Approximately 75% of VLF revenue is deposited into the Motor VLF Account in the Transportation Tax Fund and is split between cities and counties. This portion of VLF allocations is called "base VLF" and can be used by local governments for any spending purpose. The remaining 25% of local government VLF funds are restricted to funding various health, mental health, and social services programs shifted to the counties as part of the 1991 realignment. This portion of the VLF backfill is called "realignment VLF".

Beginning in 1998, the state offset a portion of the VLF, which had the effect of reducing the 2% rate. In 1999, the VLF was reduced by 25% (i.e., the VLF offset equaled 25%, and the VLF rate charged to vehicle owners equaled 1.5%). The VLF offset was increased from 25% to 35% in 2000, and from 35% to 67.5% in 2001. Existing law [Revenue and Taxation Code Section 10754(a)(3)(A) and 10754(a)(3)(B)] provides for a 67.5% offset and requires the state to transfer the amount of this offset to the Motor Vehicle License Fee Account in the Transportation Tax Fund and the Local Revenue Fund, for the benefit of local governments.

On June 19, 2003, Governor Gray Davis' administration invoked Revenue and Taxation (R&T) Code Section 10754(a)(3)(C) and declared that there were insufficient moneys to fully fund the 67.5% VLF offsets required by R&T Code Section 10754(a)(3)(A). Governor Davis' declaration triggered a repeal of the 67.5% VLF offset, effective for vehicle owners with final VLF due dates on or after October 1, 2003. Pursuant to Governor Davis' declaration, the state ceased backfilling local governments for revenue losses they experienced as a result of VLF offsets in place beginning on June 20, 2003. Consequently, local governments did not receive any VLF backfill corresponding to the period between June 20, 2003 and October 1, 2003. This "VLF backfill gap" was originally estimated by the Department of Finance to be $825 million, but was later revised upward to $1.3 billion. AB 1768 (Committee on Budget and Fiscal Review), Chapter 231, Statutes of 2003, anticipated that local governments would loan the amount of the VLF backfill gap to the General Fund and would be repaid in FY 2006-07.

On November 17, 2003, Governor Schwarzenegger issued Executive Order S-1-03, reinstating a 67.5% offset and returning the effective rate of the VLF to 0.65%. This Executive Order directed the Department of Motor Vehicles to reinstate the offset as soon as administratively feasible. In its mid-year spending proposals, the Administration indicated that fully funding the offset in excess of the $825 million loan amount would require $3.625 billion. However, because the $825 million estimate had been increased to $1.3 billion (an increase of $475 million), the Administration asked the Legislature to increase the local government loan referenced in AB 1768 to $1.3 billion and to approve an appropriation of $3.15 billion for local governments ($3.625 billion minus $475 million).

On December 18, 2003, reacting to the Legislature's decision to recess without acting upon the Governor's request to address local government reimbursement, the Governor invoked his powers under Budget Act Control Sections 27 and 28. In a letter sent from the Department of Finance to the chairs of the Senate and Assembly Budget and Appropriations Committees on behalf of the Governor, Finance Director Donna Arduin stated that the total estimated shortfall in local government reimbursement for the entire 2003-04 FY had been revised downward from the prior $3.15 billion estimate and now equaled 2.652 billion over the $1.3 billion "gap" amount. Relying upon his powers to spend at a rate that would incur a deficiency pursuant to the 2003 Budget Act, Governor Schwarzenegger approved a deficiency appropriation in the amount of $2.503 billion from the General Fund to replace revenue lost by local governments from VLF offsets. This appropriation replaced an in-lieu appropriation of $1,000 that was previously contained in the 2003-04 Budget Act.

On February 26, 2004, the Legislature sent Governor Schwarzenegger a bill revising the appropriations contained in AB 1768 [SB 1057 (Committee on Budget and Fiscal Review), Chapter 24, Statutes of 2004.] SB 1057 updates the Legislature's plans to reimburse local governments for the VLF backfill gap. SB 1057 directs the Controller to provide this reimbursement to local governments on August 15, 2006, unless an earlier transfer is authorized by the Legislature. The bill also authorizes the Controller, with the approval of the Department of Finance, to advance reimbursements to local governments that can demonstrate that they will experience a hardship (defined in the bill) if they must wait until August 15, 2006 for reimbursement. Total advances allowed under the provisions of the bill are capped at $40 million.

The market value is the manufacturer's suggested base price plus options, adjusted by a depreciation schedule, as follows:

For motor vehicles, the schedule is based on an 11-year depreciation period. The base equals 100% of the purchase price in the year of sale, and is scaled down each year to 15% of purchase price in the eleventh year and thereafter. Used vehicles are placed at the top of the depreciation schedule, with the tax based on the purchase price of the used vehicle. The following table details this depreciation schedule:

1st year value	100% of market
2nd year	90%
3rd year	80%
4th year	70%
5th year	60%
6th year	50%
7th year	40%
8th year	30%
9th year	25%
10th year	20%
11th and later years	15%

For trailer coaches or mobilehomes not on the local property tax roll, an 18-year depreciation schedule is used. Fees are based on 85% of market value in the year of sale and are scaled down to 15% of market value in the 18th and succeeding years. (See Chapter 6G of this Reference Book for more information on mobilehome taxation.)

The annual registration fee for all vehicles is $56 ($31 base registration fee and $22 California Highway Patrol fee, which is subject to adjustment for increases in the California Consumer Price Index, $2 supports the Alternative Fuel and Vehicle Technology Fund, and the remaining $1 supports the Enhanced Fleet Modernization Fund). In addition, most counties may impose a fee up to $6 for air quality management districts. (Counties in the San Joaquin Unified Air Pollution Control District are allowed to impose a fee up to $30). Counties may also impose a $1 fee for the Service Authority for Freeway Emergencies (SAFE) program, a $1 Vehicle Theft Deterrence Fee, a $1 Abandoned Vehicle Fee, and a $1 or $3 fee (depending on vehicle type) for law enforcement fingerprinting identification systems.

All motorcycles registered for street use are assessed a $2 Motorcyclist Safety Fee.

Instead of paying the annual registration fee and any supplemental fees, an owner may pay a $18 planned non-operation fee if it is anticipated that the vehicle will not be operated during the subsequent registration year.

The City and County of San Francisco has the authority to impose a local registration fee of $4 and a Vehicle License Fee surcharge of up to 15%. Proceeds of either of these levies are required to be spent on public transit. Imposition of either surcharge requires approval of two-thirds of the voters voting in an election on the issue.

Additional charges are levied on vehicles with high compression engines.

The weight fee rate depends on either unladen weight of the vehicle, the declared gross vehicle weight, or combined gross vehicle weight.

3. EXEMPTIONS

Government-owned, diplomatic, civil air patrol, and farm vehicles are exempt from license fees. Privately owned school buses and vehicles owned by blind or amputee veterans are also exempt.

4. FEDERAL TAXATION

The federal government imposes a use tax on certain highway vehicles and a "gas guzzlers" tax on manufacturers of cars with low mileage ratings. All other states have fees similar to those imposed in California.

5. REVENUE

As noted earlier, the state previously backfilled any loss of local government revenue associated with the reductions in VLF. Effective July 1, 2004, of the total amount of VLF revenue available to local governments, approximately 25% is deposited in the

Transportation Tax Fund. This revenue is equally divided between cities and counties. The funds are then further divided among cities and among counties on a population based formula.

The remaining 25% of VLF revenues are deposited into the VLF Account of the Local Revenue Fund. These funds partially finance certain health and welfare programs, the responsibility for which the state transferred to local agencies.

Trailer coach VLF revenues are deposited in the state General Fund. Before fiscal year (FY) 1992-93, these funds were distributed to cities, counties, and school districts on a situs basis.

The VLF on motor vehicles totaled $2.3 billion in FY 2006-07, $2.2 billion in FY 2007-08, and is expected to raise $2.1 billion in FY 2008-09.

Motor vehicle "registration" fees generated approximately $1.6 billion in FY 2007-08 and are expected to raise $2.0 billion in FY 2008-09. Out of each $56 vehicle registration fee, $22 provides supplemental support for the California Highway Patrol. The remaining $31 supports the activities of all of the departments funded by the Motor Vehicle Account including Motor Vehicles, Highway Patrol, Justice and Air Resources Board, $2 supports the Alternative Fuel and Vehicle Technology Fund and the remaining $1 supports the Enhanced Fleet Modernization Fund.

Weight fees generated approximately $1.0 billion in FY 2007-08 and are expected to generate $1.0 billion in FY 2008-09. Weight fees accrue to the State Highway Account and are used for highway construction.

6. ADMINISTRATION

Most fees are administered by DMV. Registration and license fees are paid annually at the time of registration. Authority for collecting delinquent vehicle license and registration fees was transferred to the FTB as part of the FY 1993-94 budget package. The FTB is responsible for collecting delinquent VLFs.

7. CODE

Revenue and Taxation Code Sections 10751-11156

Motor Vehicle Code Sections 9101-9250

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